



HF 807 – Individual Income Tax Changes (LSB2673HV)

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Fiscal Note Version – New

Description

House File 807 modifies Iowa's individual income tax system, effective for tax year (TY) 2009.
The Bill:

- Changes the current nine-rate individual income tax structure to an eight-rate structure.
- Reduces the top tax rate from 8.98% to 6.98%. The overall structure is lowered for TY 2009. Rates for TY 2010 and subsequent tax years are established at rates higher than the new rates for TY 2009 but lower than current law.
- Eliminates the ability to deduct federal income tax payments from State income taxes, starting with TY 2009 federal payments.
- Increase the tax credit for blind individuals and the tax credit for 65 or older individuals from the current \$20 to \$40.
- Increases Iowa's refundable earned income tax credit from the current 7.0% to 8.0%. The credit is calculated as a percent of the taxpayer's federal credit.
- Enhances the Child and Dependent Care Tax Credit
- Enhances the Early Child Development Tax Credit

Assumptions

1. The Department of Revenue utilized an individual income tax micro-simulation model to estimate tax liability for 1.3 million Iowa households for tax years 2009 through 2013. Estimates are first calculated assuming current law, and then are estimated assuming the proposed law. The fiscal impact is calculated as the sum of the net impact on all 1.3 million households.
 - a. The estimates are based on tax returns for tax year 2005. This is the last year that a near universal set of Iowa tax returns is available.
 - b. The underlying tax return data (wages, interest, size and age distribution of the population, etc.) are adjusted for each projection year based on growth/decline factors provided primarily by [Moody's Economy.com](http://Moody'sEconomy.com) and the U.S. Census Bureau.

- c. All significant federal tax changes currently scheduled to expire at the end of calendar year 2010 are assumed to expire.
- d. No new federal tax rate changes or credits or other provisions reducing or increasing the federal taxes owed by Iowa taxpayers are assumed.
- e. The federal alternative minimum tax (AMT) is assumed to be “patched” each year as has been the annual practice of the U.S. Congress in recent years.
- f. The model includes both General Fund income taxes and local option surtax for schools, so changes to tax liability also include changes to surtax liability. The surtax equals less than 3.5% of the total of income tax and surtax, so the issue is ignored in the General Fund table below.

2. Base Income Tax Revenue Projection:

- a. The FY 2009 net General Fund individual income tax revenue projection as provided by the March 20, 2009, Revenue Estimating Conference (REC) is \$2.810 billion.
- b. The FY 2010 net General Fund individual income tax revenue projection as provided by the March 20, 2009, REC is \$2.724 billion.
- c. Net General Fund individual income tax growth for FY 2011 through FY 2013 will equal 3.60% per year. This is the average annual rate of growth in individual income tax revenue for the eight years ending FY 2008, adjusted for \$160.0 million in federal deductibility impact over those eight years.
- d. Items c, d, and e in Assumption 1 above are also assumed in the base income tax projection.

3. State income tax withholding tables will change effective January 1, 2010.

Fiscal Impact

Column 1 in the following table provides an estimate of net individual income tax revenue, based on the assumption of average annual growth and expiration without replacement of federal tax rate reductions and tax credits enacted from 2001 through 2009. Column 2 provides the same estimate as Column 1, but assumes all changes contained in HF 807. Column 3 provides the impact of the Bill compared to the projection of current law.

State Net General Fund Individual Income Tax Revenue			
In Millions of Dollars			
	Column 1	Column 2	Column 3
	Current Projection	Projection With HF 807	Difference
FY 2009	\$2,810.0	\$2,810.6	\$0.6
FY 2010	2,724.0	2,731.3	7.3
FY 2011	2,741.3	2,822.1	80.8
FY 2012	2,732.0	2,923.7	191.7
FY 2013	2,837.0	3,028.9	191.9

The fiscal impact displayed in Column 3 of the table assumes the federal Internal Revenue Code will remain unchanged, other than the scheduled expiration of several significant tax rate and tax credit provisions. Over the next several years, many unanticipated changes to the Internal Revenue Code will occur. Those unforeseen changes may increase or decrease the federal tax liability of Iowans, making the revenue impact projection in Column 3 too high or too low.

Sources

Department of Revenue Tax Model
Revenue Estimating Conference, March 2009
Legislative Services Agency Projections

/s/ Holly M. Lyons

April 2, 2009

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to [Section 2.56, Code of Iowa](#). Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.
